

DEPARTMENT OF
FINANCIAL SERVICES

ITEM NO. 12
FILE NO. 89

To: Matthew Hart, Town Manager

From: Peter Privitera, Director of Finance, Duane Martin, Town Engineer

Subject: Staff Response to Council Questions re 10-23-2018 MDC Presentation

Date: November 9, 2018

On October 23rd, the MDC presented to the Town Council their integrated planning approach for municipal stormwater and wastewater programs. In order to meet multiple Clean Water Act (CWA) requirements, the MDC asked the Town Council to support their Integrated Long Term Control Plan, which is updated every five years. The MDC integrated planning approach focuses on identifying efficiencies from separate wastewater and stormwater programs and, in conjunction with member Towns, sequence capital improvement projects by addressing the highest priority areas first. This approach encourages comprehensive solutions and efficient usage of capital investment.

The MDC is obligated by the U.S. Environmental Protection Agency to address sanitary sewer overflows in its member communities. In order to address these overflows, the MDC designed and is in the process of constructing a sanitary conveyance and storage tunnel between Hartford and West Hartford. The tunnel will eliminate the sanitary sewer overflows in the southern portion of West Hartford, but is expensive and defers general sanitary sewer maintenance funding away from the MDC infrastructure needs. Instead of constructing additional tunnels to address the additional flow in the MDC sewer system and overflows in other MDC member Towns, they propose the removal of inflow and infiltration of clean water into the sanitary sewer system through their proposed Integrated Plan. The removal of clean water from sanitary sewers will require an unknown number of new connections to the Town's stormwater system.

The sanitary sewer infrastructure in West Hartford is the second oldest of all of the member Towns with an overall age of 53 years. Hartford has the oldest with an average age of 74 years. If the MDC were to continue constructing tunnels, the strain of deferred maintenance would be problematic. The MDC's proposed Integrated Plan includes the rehabilitation of approximately 45 percent of the sanitary sewer infrastructure in West Hartford. Upon completion in 2038, this rehabilitation will eliminate inflow and infiltration and is projected to decrease West Hartford's sanitary sewer infrastructure age by 20 years.

This updated plan, which has been approved by the MDC Commissioners, will be submitted to the CT. Department of Energy and Environmental Protection (DEEP) at some point in December, 2018.



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Fiscal Impact to Member Towns:

The MDC is proposing to significantly increase their capital spending on sewer projects as indicated in the attached forecast. There are two components to their debt financing plan. The first component is to spend \$35,000,000 per year on sewer related capital improvement projects. The second component is to spend \$7,203,000 per year related to the sewer portion of their combined sewer/water capital improvement projects such as information technology infrastructure, headquarters, shared facilities, labor for engineering, construction inspectors, construction management, etc. Overall, MDC capital spending for direct and indirect sewer related projects totals \$42,203,000 per year for at least the next five years.

As the MDC Integrated Plan requires approval from DEEP, our understanding is that the MDC Integrated Plan proposal to DEEP will not be acted on in time for incorporation into the eventual MDC Adopted budget for 2019; therefore any action on the MDC Integrated Plan will probably not affect the significant member Town ad valorem increase identified in the MDC's Proposed Budget for 2019.

Regarding the proposed sewer capital plan, the MDC has identified the following two financing options (Option 2 is contingent upon DEEP approving the MDC Integrated Plan):

Option 1; Status Quo/No Change to the Current Ad Valorem Tax Billing Process: This option proposes to issue General Obligation (G.O.) bonds to finance the MDC's \$42,203,000 annual capital spending plan. Since the bonds are financing direct and indirect sewer related debt and since the debt service on the bonds is financed through the ad valorem tax on member municipalities, the impact on the ad valorem tax will reflect significant increases (every other year in accordance with the MDC bond issuance schedule). **This option will result in an aggregate ad valorem tax increase of \$25.8M or 57.3% from the current 2018 fiscal year to fiscal year 2023.**

Option 2; Integrated Plan: This option proposes to issue both revenue bonds and G.O. bonds to finance the \$42,203,000 annual capital spending plan. The MDC will issue \$35,000,000 in revenue bonds to be financed by the Clean Water Project (CWP) charge paid by MDC customers and will not be calculated as part of the member town's ad valorem tax. The \$7,203,000 will be issued as G.O. bonds and financed through the ad valorem tax paid by member towns. This option will result in a much lower year to year ad valorem tax increase since \$35,000,000 in capital spending will be financed by CWP revenue. However, the individual CWP charge paid by MDC customers through their water bills will increase proportionately to finance the revenue bonds issued. **This option will result in an aggregate ad valorem tax increase of \$13.3M or 29.5% from the current 2018 fiscal year to fiscal year 2023.** The MDC is seeking the Town Council's support on this option.

An additional component to consider is the impact that these sewer related projects might have on the member Towns storm water infrastructure systems which are owned and maintained by the member Towns. No financing decisions by the MDC have been made

regarding what could be substantial additional capital costs for the member Towns, however, any future decision will probably fall under one of the following options:

1. The Towns will be responsible for storm water system costs which will result in additional local capital expenses (financed by increasing local property taxes).
2. The MDC will be responsible for storm water system costs and will include those costs in their G.O. bond issues and ultimately require the Towns to finance those costs through an increased ad valorem tax (financed by increased local property taxes).
3. The MDC will be seek federal grants/funding to offset the Towns storm water system costs resulting in no additional capital cost to the Towns.
4. The MDC will include the Towns storm water costs in their capital plan and finance those costs through Revenue Bonds (financed by an increased CWP charge on MDC customer's water bills).

Unfortunately, potential costs related to address the disruption of member Towns storm water systems caused by sewer projects under the MDC plan cannot be determined at this time.

Upon careful consideration, the Finance Director and Town Engineer agree that the MDC's proposed Option 2; Integrated Plan is in the best interest of the Town of West Harford based upon comparison of both option's financial impact and sanitary infrastructure benefit.

2018 ADOPTED BUDGET FIVE YEAR FORECAST STATUS QUO VS INTEGRATED PLAN

	Adopted Budget		Adopted Budget		Forecast				
	2017	2018	2019	2020	2021	2022	2023		
Integrated Plan									
Tax on Member Municipalities	\$ 41,670,400	\$ 45,004,000	\$ 53,491,851	\$ 54,345,967	\$ 56,441,152	\$ 57,611,000	\$ 58,288,315		
% Increase		8.0%	18.9%	1.6%	3.9%	2.1%	1.2%		
Debt Service	\$ 22,668,800	\$ 28,519,414	\$ 32,639,872	\$ 31,254,150	\$ 31,123,721	\$ 29,687,059	\$ 29,043,370		
% Increase		25.8%	14.4%	-4.2%	-0.4%	-4.6%	-2.2%		
<div> <div>LTCIP / Integrated Plan Approval</div> <div> <div>↓</div> <div>↓</div> </div> </div>									
CIP Spending Sewer	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000		
Integrated Plan CIP	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000		
CIP Spending Combined	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000		
Total CIP									
Debt Issuance									
GO Debt - Ad Valorem	\$ 70,000,000		\$ 14,406,000	\$ 14,406,000		\$ 14,406,000			
Revenue Bond - CWP Charge				\$ 70,000,000		\$ 70,000,000			
Status Quo									
Tax on Member Municipalities	\$ 41,670,400	\$ 45,004,000	\$ 53,491,851	\$ 54,345,967	\$ 62,741,152	\$ 63,771,000	\$ 70,783,315		
% Increase		8.0%	18.9%	1.6%	15.4%	1.6%	11.0%		
Debt Service	\$ 22,668,800	\$ 28,519,414	\$ 32,639,872	\$ 31,254,150	\$ 37,423,721	\$ 35,847,059	\$ 41,538,370		
% Increase		25.8%	14.4%	-4.2%	19.7%	-4.2%	15.9%		
CIP Spending Sewer	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000		
Integrated Plan CIP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
CIP Spending Combined	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000	\$ 7,203,000		
Total CIP	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000	\$ 42,203,000		
Debt Issuance									
GO Debt - Ad Valorem	\$ 70,000,000		\$ 84,406,000	\$ 84,406,000		\$ 84,406,000			
Revenue Bond - CWP Charge				\$ -		\$ -			